COTTAM DEVELOPMENT CENTRE

COTTAM DEVELOPMENT CENTRE LIMITED

REPORT

for the 9 Months ended 3 January 1999

Registered No: 3273552

COTTAM DEVELOPMENT CENTRE LIMITED

Report of the directors for the period ended 3 January 1999

The directors submit their report and audited financial statements of the Company for the 9 months ended 3 January 1999.

Review of activities and future developments

The principal activity of the company is currently the construction of a generator turbine testing and power generation facility.

The retained loss for the period ended 3 January 1999 was £3,251,000.

Construction of the station progresses satisfactorily and the directors expect station commissioning to be completed at the end of September 1999.

The company has commissioned a team from PowerGen plc to review its financial systems for year 2000 compliance. The review has not identified any significant compliance problems. The operational systems are all being formally tested by the Siemens AG Group for year 2000 compliance and again no significant problems have been identified to date. This testing will be completed before provisional takeover. Future costs associated with ensuring that all systems are millennium compatible, are likely to be insignificant for the company.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the Company at 3 January 1999 were N P Baldwin, P R Hughes, Dr F Ruess and H-J Schulz. All directors were appointed on 21 November 1996.

COTTAM DEVELOPMENT CENTRE LIMITED

Auditors

On 25th November 1998 Deloitte & Touche were re-appointed as auditors of the company.

Statement of directors' responsibilities

The directors:

- acknowledge the legal requirement for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit and loss for that period;
- acknowledge their responsibility for keeping proper accounting records, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities;
- confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements;
- confirm that applicable accounting standards have been followed;
- confirm that the financial statements have been prepared on a going concern basis.

BY ORDER OF THE BOARD
J Jones, Company Secretary
53 New Broad Street
London
EC2M 1JJ
08 June 1999

COTTAM DEVELOPMENT CENTRE LIMITED

Report of the auditors
to the members of Cottam Development Centre Limited

We have audited the financial statements on pages 5 to 14, which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 03 January 1999 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
1 Woodborough Road
Nottingham
14 June 1999

COTTAM DEVELOPMENT CENTRE LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 3 January 1999

	Note	9 months ended 3 January 1999 £'000	17 months ended 29 March 1998 £'000
Operating costs	3	(2,767)	(2,285)
Operating loss : continuing activities		(2,767)	(2,285)
Interest payable	6	(484)	(153)
Loss on ordinary activities before taxation		(3,251)	(2,438)
Tax on loss on ordinary activities	7	-	-
Retained loss for the financial year		(3,251)	(2,438)

The Company has no recognised gains or losses during the period, other than the losses above and therefore no separate statement of total recognised gains and losses is presented.

COTTAM DEVELOPMENT CENTRE LIMITED

BALANCE SHEET
AS AT 3 January 1999

	Note	3 Jan 1999 £'000	29 March 1998 £'000
Tangible fixed assets	8	**7,472**	**3,719**
Current assets			
Debtors	9	**132**	**154**
Short term deposits		**10**	**245**
Cash at bank and in hand		**100**	**1**
		242	**400**
Creditors: amounts falling due within one year	10	**(432)**	**(895)**
Net current liabilities		**(190)**	**(495)**
Total assets less current liabilities		**7,282**	**3,224**
Creditors: amounts falling due after more than one year	11	**(10,513)**	**(4,564)**
Net liabilities		**(3,231)**	**(1,340)**
Capital and deficiency			
Called up share capital	12	**2,458**	**1,098**
Profit and loss account		**(5,689)**	**(2,438)**
Equity shareholders' deficit	13	**(3,231)**	**(1,340)**

The accounts have been approved by the Board on 01 June 1999 and were signed on its behalf by:

.... Director
[HJ Schulz]

COTTAM DEVELOPMENT CENTRE LIMITED

CASHFLOW STATEMENT
Period ended 3 January 1999

	Note	9 months ended 3 January 1999 £'000	17 months ended 29 March 1998 £'000
Net cash outflow from continuing activities	Below	**(3,215)**	**(1,532)**
Returns on investment & servicing of finance:			
Interest received		36	28
Interest paid		0	(1)
Net cash inflow from returns on investment & servicing of finance:		**36**	**27**
Capital Expenditure			
Purchase of tangible fixed assets		(3,757)	(3,731)
Net cash outflow from capital expenditure		**(3,757)**	**(3,731)**
Net cash outflow before management of liquid resources and financing		**(6,936)**	**(5,236)**
Management of liquid resources			
Movement in Cash placed on short term deposit		235	(245)
Financing			
Issue of ordinary equity	12	1,360	1,098
Receipts from loan drawdowns	14	5,440	4,384
		6,800	5,482
Net cash inflow from liquid resources & financing		**7,035**	**5,237**
Increase in cash in the period	14	**99**	**1**

Reconciliation of operating loss to net cash outflow from continuing operating activities

Operating loss		(2,767)	(2,285)
Depreciation on tangible fixed assets		30	12
Decrease / (Increase) in debtors		22	(154)
(Decrease) / Increase in creditors		(500)	895
Net cash outflow from continuing operating activities		**(3,215)**	**(1,532)**

Notes to the financial statements for the period ended 3 January 1999

1 Accounting policies

(a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

(b) Tangible fixed assets

Tangible fixed assets are stated at original cost less accumulated depreciation. In the case of assets constructed on behalf of the Company, related project management and commissioning costs are included in cost. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

(c) Depreciation

Provision for depreciation is made so as to write off, on a straight line basis, the cost of tangible fixed assets. Assets are depreciated over their estimated useful lives. Generation assets are depreciated from final Takeover. The estimated useful lives for the principal categories of fixed assets are:

Asset	Life in years
Operating plant and buildings	25
Office equipment and other short term assets	3

(d) Leases

Rents payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

(e) **Deferred taxation**

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation using the liability method, is made to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2 Turnover

Turnover relates to continuing activities and will principally derive from the sale of energy entirely within the UK when trade commences.

3 Operating costs

Operating costs relate to continuing activities and are made up as follows:

	3 Jan 1999 £'000	29 Mar 1998 £'000
Operational expenses	2,226	1,930
Administration expenses	541	355
	2,767	2,285

Operating costs include auditors' remuneration for audit of £7,750 and depreciation of £30,164. The auditors received £1,500 remuneration for provision of non-audit services to the Company during the period.

4 Employee information

The Company has no employees other than the 4 Directors and the Company Secretary.

5 Directors' emoluments

The directors, who represent the interests of the shareholders received no remuneration for services to the Company during the period.

6 Interest payable

	3 Jan 1999 £'000	29 Mar 1998 £'000
Interest payable on loans < 5 yrs	511	181
Interest receivable on deposits	(27)	(28)
	484	153

Interest payable is all payable to the ultimate parent undertakings PowerGen plc and Siemens AG.

7 Tax on loss on ordinary activities

There is no taxation in the accounts as the Company has not commenced trading.

8 Tangible fixed assets

	Plant and Buildings £'000	Other short term Assets £'000	Total £'000
Cost			
At 30th March 1998	3,617	114	3,731
Additions	3,754	29	3,783
At 3rd January 1999	**7,371**	**143**	**7,514**
Accumulated depreciation			
At 30th March 1998	-	(12)	(12)
Charge for the period	-	(30)	(30)
At 3rd January 1999	**-**	**(42)**	**(42)**
Net book value			
At 3rd January 1999	**7,371**	**101**	**7,472**
At 29th March 1998	**3,617**	**102**	**3,719**

Of the additions during the period on operating plant and buildings £3,492,000 are in respect of assets under construction.

9 Debtors

	3 Jan 1999 £'000	29 March 1998 £'000
Due within one year		
VAT Debtor	99	154
Other Debtors	33	-
	132	154

10 Creditors: amounts falling due within one year

	3 Jan 1999 £'000	29 March 1998 £'000
Trade creditors	27	3
Amounts owed to parent undertakings	33	774
Accruals and deferred income	372	118
	432	895

11 Creditors: amounts falling due after more than one year

	03 Jan 1999 £'000	29 March 1998 £'000
Amounts owed to ultimate parent undertakings	10,513	4,564

The amounts owed are split equally between the ultimate parent undertakings. They represent an unsecured loan repayable in June 2002. The ultimate parent undertakings are obliged to provide or procure funding for a further 5 years as contained in the Finance Plan under the same terms and conditions as defined in the current loan agreements. Interest is payable on the loan at rates which approximate to 7%. The Company can elect to roll-up the interest into the principal.

12. Called up share capital

The share capital of the company comprises:

	03 Jan 1999 £'000	29 March 1998 £'000
Authorised		
10,000,000 ordinary shares of £1 each	**10,000**	**10,000**
Allotted, called up and fully paid 2,458,000 (1998: 1,098,000) ordinary shares of £1 each	**2,458**	**1,098**

During the year, 1,360,000 ordinary shares were issued for cash at a nominal value of £1,360,000.

13 Reconciliation of movements in shareholders' deficit

	3 Jan 1999 £'000	29 Mar 1998 £'000
Opening shareholders' deficit	**(1,340)**	**-**
Loss for the year	**(3,251)**	**(2,438)**
Equity issued in year	**1,360**	**1,098**
Closing shareholders' deficit	**(3,231)**	**(1,340)**

14 Reconciliation of net cashflow to movement in net debt

	3 Jan 1999 £'000	29 Mar 1998 £'000
Opening net debt	**(4,318)**	**-**
Increase in cash in the period	99	1
Cash inflow from increase in debt	(5,440)	(4,384)
Cash (inflow) / outflow from decrease / increase in liquid resources	(235)	245
Change in net debt from cashflows	(5,576)	(4,138)
Rolled up interest	(509)	(180)
Movement in net debt	**(6,085)**	**(4,318)**
Closing net debt	**(10,403)**	**(4,318)**

15 Analysis of net debt

	30 March 1998 £000	Cashflow £000	Non cash items £000	3 January 1999 £'000
Cash in hand at bank	1	99	-	100
Short Term Deposits	245	(235)	-	10
Loans due < 5 years	(4,564)	(5,440)	(509)	(10,513)
Total debt	**(4,318)**	**(5,576)**	**(509)**	**(10,403)**

16 Capital commitments

At 3 January 1999, the Company had commitments of £164,486,000 for capital expenditure and other project related expenditure, of which £80,315,000 related to expenditure to be incurred after one year. The commitments relate to contracted payments required under the Plant Development agreement for Generation plant and payments for the Gas pipeline.

17 Ultimate parent undertaking

The Company is a wholly owned joint venture undertaking between Siemens Project Ventures GmbH, a wholly owned subsidiary of Siemens AG (a Company registered in Berlin and Munich, Germany) and PowerGen plc (a Company registered in England and Wales)

18 Related party transactions

The Company has a significant number of transactions with the shareholders the majority of which are all defined within individual contracts between the Company and PowerGen UK plc, and the Company and members of the Siemens AG Group.

During the year, the Company had operational transactions totalling £5,962,000 from PowerGen plc, primarily for contributions to the construction of the Gas Pipeline, and contractual obligations for operations and maintenance staff and project management. All charges are based on arms length terms. Of these costs, £88,000 was outstanding at the 3 January 1999.

During the year, the Company had operational transactions totalling £67,000 from companies within the Siemens AG group mainly for salary charges. All charges are based on arms length terms. Of these costs, £20,000 was outstanding at the 3 January 1999.